2/5/86 U1880-3

Georgia State University
a unit of the university system of georgia

university plaza
atlanta, georgia 30303-3083

MONTHLY PROJECTIONS
January 1986

Dr. Donald Ratajczak, Director
For Release: January 29, 1986

ACTIVITIES STRENGTHENING NOTICEABLY AS 1986 BEGINS

Data revisions show that economic activity was more and less than what had been expected. Initially, hopes had been raised that adjustments for appropriate price deflation of computer components and a more significant measure of untaxed income would lead to greater growth in economic activity during the past decade. In fact, inflation proved to be slightly stronger while real growth was slightly less, about 0.2 percentage points per year, than originally projected. The level of GNP was revised upward, suggesting that American workers were more productive than originally expected and also indicating that the velocity of money was higher than previously thought. However, reduced growth in economic activity in recent years provides less than beneficial interpretations for those important efficiency measures.

Sharp upward revisions in proprietors' income led to higher estimates of savings than initially reported. However, the erosion of savings in recent years remained intact, even if the savings rate late in 1985 was above 4% rather than at 3%, as originally reported. However, a sigificant downward revision in rental income reduces the implications of this diminished savings. Higher costs of operating housing than originally projected, lowered the rental income component by more than $50 billion. As the downward adjustment was the result of increased cost, imputations were not affected to any measurable extent on the expenditures side of the ledger. Thus, significant imputed savings accruing from homeownership gains has been eliminated by the data revisions. There is significant dispute as to whether imputed rental income should be included in income flows. Savings from income excluding the rental component has been more stable than the dramatic decline in savings shown with the addition of rental income.

On the expenditures side, the most noteworthy adjustments were for housing stock and investment in structures. Instead of expanding approximately 2.6% per year in recent years, upward revisions in remodeling and modernization expenditures for housing suggest that housing stock has been expanding about 3.3%. This remodeling factor goes a long way toward explaining why housing sales have been less responsive to declining interest rates than in previous cycles. At 3.3%, additions to housing capital already appear to be adequate to meet household needs. This revision should lower estimated housing starts for any given interest rate profile in 1986 and 1987.

The accumulation of structures also appears to be more rapid than originally projected, with net capital expanding nearly 3.5% per year. This clearly demonstrates excessive accumulation of structure. On the other hand, capital accumulation for producers' durables appears to be less robust than originally projected. In effect, the capital stock has become more heavily concentrated in structures and less heavily concentrated in equipment than originally estimated. These composition shifts have been more dramatic in recent years.

Improved revenue estimates at the state and local level suggests that surpluses there have been larger than originally projected. This permits state and local governments to increase expenditures despite the loss of general revenue sharing in the next two years.

In recent quarters the revised GNP accounts use more appropriate estimates of import delivery than contained in the merchandise trade report. That report measures processed exports and imports, but processing delays have been extensive for imports. The result of this revision has been to shift economic strength between quarters in recent years. For example, the fourth quarter of 1984 now appears to have grown only 0.6% as compared to an initial 4.3%. On the other hand, the 0.3% growth initially recorded for the first quarter of 1985 is converted to a 3.7% gain. These figures are much more consistent with changes in industrial activity and increase the efficiency of our monthly model.

As mentioned in our previous projections, economic activity was even weaker in October than originally projected. Downward revisions in consumption and industrial production suggest that GNP after inflation actually declined in that month. This is the major reason why fourth quarter GNP was revised downward from the initial "flash" estimate. Of course, the "flash" also understated the magnitude of inflationary pressures developing in the fourth quarter. It is noteworthy that the acceleration of energy prices in that quarter caused the inventory valuation adjustment to shift from undervaluing inventories by $5.1 billion to overvaluing them by $10.1 billion. Virtually all of this adjustment was in energy materials inventories. With energy prices again falling sharply, inventories will again understate the volume of available goods. Of course, this shift in the IVA will cause higher taxable corporate profits in the fourth quarter than originally estimated. This also will lead to a higher effective tax on capital, especially in the energy-producing sectors. However, these profit conditions will reverse early in 1986.

Although the quarter started very weak, it ended very strong. Our estimates show that December activity is nearly 4% at annual rates above the fourth quarter average if GNP remains unchanged from December levels through the first quarter. Some special factors apparently enhanced the strength of economic activity in December. Renewed automobile rebates as an alternative to production curtailments explains some of the continued strength. In addition, strong shipments and orders for commercial aircraft aided capital goods in December. Some of that strength will be reversed in the early months of 1986. Also, some of the strong shipments of capital goods reflect deliveries of the IBM Sierra system. These deliveries will continue to grow rapidly through the first quarter of 1986 and then slow thereafter.

However, strength also appeared in industrial materials, suggesting that inventories once again are being accumulated at the manufacturing and wholesale level following nearly a year of liquidations. These inventory gains will continue to generate relatively vigorous increases in industrial production for a

few more months. A last area of surprising strength was in housing. Building permits leaped above 1.8 million units in December, a level that could support almost two million starts. It is clear that construction activity will continue to grow strongly in the early months of 1986, although a reduction in nonresidential construction orders in November may be the beginning of an orders correction that will ultimately lead to expenditures reductions during the second half of the year. At any rate, economic activity is surprisingly robust as 1986 begins. The consensus forecast that the economy will struggle through the early months of 1986 before improvement in net exports create greater growth later in the year probably should be reversed. Activity appears to be very strong early in 1986, but the fade-off in capital shipments and projected reductions in construction later should sharply slow the growth of economic activity by year-end.

Normally, such intensifying gains in economic activity would lead to increasing interest rates. Indeed, our earlier projections showed rising rates in the spring followed by further weakness later in the year. However, sharply falling oil prices will cause the GNP deflator and especially the CPI and PPI measures of inflation to slow sharply early in 1986. Thus, real growth will be supported by reduced inflation. This type of economic environment will put only moderate pressures upon the credit markets. As the Federal Reserve may be encouraged to add stimulus to the economy after the latest bout of auto incentives is over and economic activity slows in the spring, declining interest rates now appear to be likely in the spring. However, the downward movement in rates should not be dramatic.

Stronger real growth but lower inflation probably will add to corporate profitability, although there will be relatively little improvement in profit margins. Most of the improved profitability will be generated by increased productivity performance deriving from stronger real growth. However, continued moderate increases in wage demands, if the December surge can be discounted, and no significant increase in interest expenses, suggest that corporate profits will be growing somewhat faster than nominal GNP during 1986. Our current projections are for profit gains after adjustment for IVA and capital consumption adjustment of approximately 11%. Because interest rates are expected to fall slightly, these changes could justify stock market values as measured on the Dow Jones averages approaching 1700 in the summer months. Declining stock values then may materialize if rising wage costs and interest rate pressures surface toward the end of the year.

Quarterly Profile of GNP

	1985-3	1985-4	1986-1	1986-2	1986-3	1986-4	1986
Real:	3.0	2.4	4.7	2.6	3.7	3.3	3.2
Price:	2.9	3.3	2.3	3.6	3.2	3.9	3.0
Nominal:	5.8	5.9	7.0	6.1	7.1	7.2	6.4

Monthly Statistical Highlights for January 1986

Payroll employment +215,000; index of hours worked, UNC; household employment +233,000; civilian unemployment rate 6.9%; personal income -0.1%; savings rate 3.1%; personal consumption +0.5%; retail sales +0.8%; auto sales 11.9 million; housing starts -1.3%; housing permits -5.9%; construction expenditures +1.2%; business inventories +0.1%; orders for durable goods -1.8%; orders for nondefense capital goods -13.8%; industrial production +0.4%; CPI +0.1%; PPI -0.2%; consumption deflator +0.1%; leading indicators -0.3%; real GNP +2.7%; M1 +6.3%; M2 +10.4%.

Monthly Statistical Highlights for February 1986

Payroll employment +223,000; index of hours worked +0.2%; household employment +260,000; civilian unemplyment rate 6.8%; personal income +0.6%; savings rate 3.8%; personal consumption -0.0%; retail sales -1.0%; auto sales 10.5 million; housing starts +3.4%; housing permits +0.4%; construction expenditures +0.7%; business inventories +0.3%; orders for durable goods +1.6%; orders for nondefense capital goods +5.4%; industrial production +0.3%; CPI +0.2%; PPI -0.1%; consumption deflator +0.3%; leading indicators -0.2%; real GNP +1.7%; M1 +7.3%; M2 +8.7%.

COMMENTARY

Employment - December's employment report was surprisingly robust, with payroll employment increasing 320,000 and the manufacturing workweek growing by 0.3 hours. The index of hours worked increased 4.1% at annual rates during the fourth quarter. Obviously, the estimated 2.4% increase in economic activity suggests that productivity declined significantly. Nevertheless, the weakness in productivity is inconsistent with improving industrial activity and extensions of overtime hours. This strongly suggests that fourth quarter GNP estimates may be revised upward. Employment strength was widespread. In addition, wages per hour grew sharply. However, the quarterly increase in the hourly earnings index is only 3.8%, and the index is only 3.1% above previous year levels. Therefore, the 0.8% movement in that index during December must be viewed as an abberation which ought to be followed by much more subdued changes in hourly earnings. It also is likely that the workweek was extended because improving orders in December were not expected to be sustained. If those orders remain reasonably robust early in 1986, as anticipated, the workweek will shorten while payrolls continue to grow rapidly. Despite the obvious reduction in productivity during the fourth quarter, productivity should increase measurably in 1986. In addition, the workweek probably will diminish following unusually rapid increases in recent months.

Personal Income & Retail Activity - Several extraordinary items helped to swell personal income in December. First, significant support from the Commodity Credit Corporation led to more than $13 billion gains in December's farm income. As few crops will be available to be placed on farm programs early in 1986, farm incomes will fall back to the $20 billion range. Second, the absence of hurricane and flood dislocations on rental income led to more than a $4 billion surge in that component. Minimal changes will develop in January. Third, pay increases for the military raised government salaries both in November and December. While those increases will not be reversed, there will be little

contribution from additional pay increases in January. In addition to the absence of these favorable conditions, January's personal income will be slowed by much more moderate gains in wage and salaries than in December and by increased Social Security taxes, which will take about $4 billion from the January estimates. When all these factors are combined, personal income should decline slightly in January.

Although data revisions significantly increased the level of personal income as a result of the changes in proprietors' income, rental income, and military salaries, they have not significantly altered our projections of growth in the next year. In effect, slower growth in farm income than previously projected will be offset by more rapid gains in wage and salary income.

A surge in spending for services in December substantially contributed to the expansion in personal consumption. Of course, financial incentives to purchase automobiles also raised expenditures for durables. These incentives are expected to continue generating sharply higher auto sales through January, but the impact will wear out even before the incentives are scheduled to be removed in the latter part of February. Another bout of incentives is expected to clear excess inventories late in the summer before the 1987 models are introduced. Declining oil prices will dramatically slow the growth of expenditures for nondurable goods early in the year. As oil prices diminish their deflationary impact late in the spring, more normal growth is expected. Declining oil prices also will impact utility costs in the services component.

Construction - Housing starts and housing permits rebounded sharply in December following an apparently weather-induced decline in November. Much of the gain in permits was in rental properties. Apparently, builders believe that tax reform may come but will not affect properties placed on the books in 1986. Therefore, a surge of permits followed by sharply increasing activity now appears to be likely early in the year. As tax reform probabilities approach late in 1986, however, housing activity should trail off sharply.

Because of the more favorable budget positions for state and local governments, public construction was revised upward slightly in our projections for later in 1986. On the other hand, a sharp drop in orders for nonresidential construction suggests that that sector will be growing slowly in the fall. As a result, construction will no longer contribute significantly to economic gains beyond the spring.

Business Activity - Durable goods orders were surprisingly strong in December as a result of a surge in orders for commercial aircraft. Defense orders continued to trail defense shipments by more than $1 billion. A rebound in the defense component will diminish the degree of downward adjustment in orders for durable goods in January. Accelerated shipments for nondefense capital goods partially reflects deliveries of aircraft. However, some of this heightened activity is expected to persist through 1986.

As a result of stronger gains in automobiles and capital goods than originally projected, industrial production now is expected to grow slightly more rapidly in 1985 than in 1985. This will lead to slightly higher capacity utilization through the year than originally projected.

Manufacturing inventories are expected to rebound slightly in December and show more substantial gains in 1986. However, diminished auto inventories as financial incentives reduce the available auto stock will initially hold down business inventories. Later in the spring, however, inventories are expected to grow for retailers and wholesalers along with manufacturers.

Prices - Oil prices certainly have fallen earlier than originally projected. It now appears that they will also fall further than expected, with contract prices for oil probably dipping to $22 per barrel by the end of spring. This will lead to substantially lower changes in the CPI and in PPI finished goods than originally projected. The result also will be slower growth in the consumption deflator and in the GNP deflator than earlier projected. Because of a rebasing of the GNP figures to 1982, comparisons between the forecast and current expectation are not terribly meaningful. However, the forecasted values continue to be produced in order to show what previous rates of change were anticipated in that outlook.

Miscellaneous - Sharp increases in stock prices, the workweek, orders for plants and equipment, and building permits will lead to a dramatic increase in leading indicators during December. Some of these components are not expected to contribute further to gains in January. As a result, the leading indicators probably will decline over the next two months. No substantial trend is expected for the leading indicators through 1986, possibly leading to significantly greater weakness in 1987.

A sharp reversal in the IVA appears to be the result of changes in prices for energy materials. As these price increases are rapidly reversing, the IVA is expected to again turn positive early in 1986 and stay positive through much of the year.

The merchandise trade balance continues to be reported in terms of the monthly processing of net exports. However, the report now contains, with a one-month lag, the delivery of exports and imports. These deliveries are more relevant to monthly changes in trade accounts and will be reported in place of the processed merchandise figure when more data is available.

FINANCIAL MARKETS

Although economic activity appears to be increasing significantly, much of this increase is not generating increased pressures in short-term credit markets. The reason for this dichotomy is the sharp slowing in price pressures resulting from plunging oil prices. In fact, loan pressures may be sufficiently subdued to permit the Federal Reserve to gradually lower its federal funds target. No discount rate move is anticipated, at least until this spring. However, a gradual weakening in rates for commercial paper and reduced bank aggressiveness to acquire CDs could lead to a decline in the prime rate by March. Such a lowering of short-term interest rates would permit a more substantial reduction in long-term rates than has already developed. The long-term government bond probably will yield less than 9% by June. Significant supplies of corporate financing will prevent a normal gap in yield between government issues and the Corporate AAA from developing in 1986. However, tax-exempt bonds probably will trade below 8% throughout the year.

Of course, the Federal Reserve may lower the discount rate. However, significant slowing in economic activity and a rebound in the value of the dollar probably will need to be in place before such action is taken. The slowing will develop after auto incentives are removed late in February. At the present time, however, the dollar remains under downward pressures against most major currencies.

Equity Markets

Assuming that long-term interest rates will fall to 9% for 30-year government securities, the stock market can continue to move upward in the early months of 1986. Indeed, operating profits less tax liabilities probably will increase about 11% during the year. This could justify a Dow Jones average-in the vicinity of 1700 by mid-year. Late in the year, however, no further decrease in interest rates is anticipated. At the same time, economic growth is expected to gradually slow. Thus, the stock market probably will be trending downward toward the end of 1986.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate		Hourly Earnings Index	
	Fore	C E	Fore	C E	Fore	C E	Fore	C E	Fore	C E
July 1985	97707	97707	116.0	116.0	106862	106871	7.3	7.3	165.4	165.4
August	97987	97977	116.7	116.7	107172	107210	7.0	7.1	165.6	165.7
September	98115	98217	117.2	117.0	107544	107519	7.1	7.1	165.6	166.7
October	98496	98559	117.5	117.4	107853	107813	7.1	7.1	166.3	166.4
November	98823	98739	117.7	117.5	108196	107969	7.1	7.0	167.0	167.1
December	99146	99059	118.0	118.3	108539	108206	7.0	6.9	167.7	168.4
January 1986	99301	99274*	118.3	118.3*	108716	108439*	6.9	6.9*	168.3	168.7*
February	99422	99497	118.5	118.6	108893	108699	6.8	6.8	168.7	169.1
March	99545	99748	118.7	118.9	109070	108977	6.7	6.8	169.2	169.5
April	99764	100001	118.9	119.1	109283	109270	6.7	6.7	169.8	170.0
May	99981	100252	119.1	119.3	109516	109568	6.7	6.6	170.3	170.6
June	100198	100378	119.3	119.4	109782	109706	6.8	6.7	170.9	171.2
July	100306	100488	119.4	119.5	109913	109856	6.7	6.7	171.4	171.8
August	100417	100589	119.5	119.6	110029	109987	6.7	6.8	171.9	172.3
September	100529	100757	119.5	119.8	110142	110208	6.8	6.8	172.5	172.9
October	100683	100925	119.7	120.0	110316	110431	6.7	6.8	172.9	173.4
November	100840	101119	119.9	120.2	110548	110607	6.7	6.8	173.3	173.8
December	100997	101220	120.2	120.3	110780	110765	6.7	6.8	173.8	174.5

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore	C E	Fore	C E	Fore	C E	Fore	C E	Fore	C E
July 1985	3.189	3.288	1.923	1.959	104.0	125.3	2.707	2.795	2.603	2.670
August	3.199	3.296	1.934	1.969	79.2	100.1	2.713	2.798	2.634	2.697
September	3.209	3.310	1.949	1.981	51.9	77.4	2.717	2.807	2.665	2.730
October	3.225	3.331	1.960	1.991	83.1	127.8	2.730	2.825	2.647	2.698
November	3.254	3.347	1.972	2.003	91.2	120.3	2.755	2.838	2.664	2.717
December	3.279	3.394	1.985	2.025	92.2	106.1	2.777	2.879	2.685	2.773
January 1986	3.290	3.390*	1.997	2.030*	89.5	90.1*	2.789	2.878*	2.699	2.788*
February	3.310	3.409	2.006	2.042	93.0	110.7	2.804	2.899	2.711	2.788
March	3.332	3.427	2.015	2.053	99.9	125.7	2.820	2.914	2.720	2.788
April	3.349	3.445	2.026	2.065	97.6	126.2	2.834	2.929	2.736	2.803
May	3.365	3.462	2.036	2.077	92.6	124.2	2.847	2.942	2.754	2.818
June	3.381	3.479	2.047	2.088	89.5	118.7	2.859	2.954	2.769	2.835
July	3.397	3.496	2.054	2.098	92.5	115.7	2.872	2.967	2.780	2.851
August	3.412	3.514	2.062	2.108	90.7	104.3	2.883	2.979	2.792	2.875
September	3.428	3.534	2.070	2.120	89.4	98.8	2.896	2.994	2.807	2.895
October	3.443	3.553	2.079	2.132	83.0	107.8	2.907	3.008	2.824	2.900
November	3.459	3.572	2.090	2.142	77.1	104.1	2.920	3.023	2.843	2.919
December	3.475	3.591	2.102	2.154	74.8	101.6	2.933	3.038	2.858	2.936

Fore. = November Forecast
C E. = Current Expectations
* = This item and those beyond it are projections

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore	C.E.	Fore	C.E.	Fore	C.E.	Fore	C.E.	Fore	C.E.
July 1985	2506.9	2579.5	336.9	357.5	892.1	909.8	1277.9	1312.2	1103.1	2303.1
August	2536.1	2606.2	357.4	378.3	893.6	912.9	1285.1	1315.0	1114.8	2330.3
September	2566.6	2636.6	372.5	394.3	901.1	921.6	1292.9	1320.7	1127.7	2351.9
October	2546.9	2603.1	338.9	348.2	906.3	926.0	1301.7	1328.9	1112.2	2312.8*
November	2562.2	2621.6	340.5	353.9	911.1	926.5	1310.6	1341.3	1114.5	2317.3
December	2581.7	2675.1	342.1	375.7	916.2	935.7	1323.4	1363.7	1118.6	2358.7*
January 1986	2595.5	2689.0*	342.3	381.6*	920.7	939.6*	1332.5	1367.8*	1121.7	2368.7
February	2606.1	2688.0	343.0	371.5	923.5	939.9	1339.6	1376.6	1122.8	2362.7
March	2614.3	2686.6	342.5	362.5	924.5	939.0	1347.3	1385.1	1122.5	2354.4
April	2629.3	2699.7	344.7	361.6	927.8	943.8	1356.8	1394.3	1126.0	2359.5
May	2645.8	2713.3	346.3	363.6	933.2	946.7	1366.3	1403.0	1129.7	2364.7
June	2659.5	2729.3	344.9	366.7	938.9	950.4	1375.7	1412.2	1131.7	2371.6
July	2668.4	2743.9	344.1	369.0	939.7	953.2	1384.6	1421.7	1130.7	2377.6
August	2680.1	2765.8	344.4	378.2	940.4	956.3	1395.3	1431.3	1131.3	2389.6
September	2693.3	2784.9	345.9	383.6	941.4	960.8	1406.0	1440.5	1132.6	2398.4
October	2709.4	2788.4	346.8	373.1	947.8	965.7	1414.8	1449.6	1135.1	2393.5
November	2727.0	2805.6	348.6	377.7	954.2	969.1	1424.2	1458.8	1138.6	2399.5
December	2741.0	2821.5	350.1	379.7	957.3	972.4	1433.6	1469.4	1140.7	2403.7

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore	C.E.	Fore	C.E.	Fore	C.E.	Fore	C.E.	Fore	C.E.
July 1985	114.42	114.42	16.47	16.47	10.3	10.3	72.08	72.08	25.87	25.87
August	117.04	116.98	16.70	16.82	12.6	12.6	72.77	72.70	27.57	27.46
September	120.23	119.54	16.80	16.91	14.5	14.4	73.22	72.95	30.20	29.68
October	115.85	114.86	16.84	17.37	9.8	9.6	73.68	72.94	25.33	24.55
November	115.91	115.62	16.90	17.39	9.9	9.8	74.05	73.40	24.96	24.83
December	115.88	117.86	16.96	17.79	10.1	11.5	74.14	73.83	24.78	26.24
January 1986	116.68	118.86*	17.01	17.87*	9.9	11.9*	74.58	74.14*	25.09	26.85*
February	117.26	117.70	17.08	17.85	9.9	10.5	75.13	74.16	25.05	25.69
March	117.23	116.57	17.15	18.02	9.8	9.4	75.01	74.09	25.07	24.46
April	117.89	116.85	17.25	18.07	9.8	9.3	75.49	74.47	25.15	24.31
May	118.27	117.39	17.20	18.11	9.9	9.4	75.75	74.78	25.32	24.50
June	118.55	117.96	17.20	18.06	9.9	9.6	76.02	74.99	25.33	24.91
July	118.60	118.62	17.28	18.17	9.7	9.7	76.28	75.37	25.04	25.08
August	118.87	119.93	17.35	18.23	9.6	10.3	76.46	75.61	25.06	26.09
September	118.59	120.93	17.20	18.32	9.5	10.7	76.30	75.97	25.09	26.64
October	119.45	120.16	17.32	18.46	9.5	9.5	76.86	76.43	25.27	25.27
November	120.25	121.04	17.45	18.53	9.6	9.8	77.36	76.78	26.44	25.73
December	120.95	121.54	17.46	18.64	9.7	9.8	77.89	77.04	25.60	25.86

Fore = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections

CONSTRUCTION

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1985	1.663	1.663	1.062	1.062	1.694	1.694	340.2	344.2	201.7	203.5
August	1.746	1.740	1.074	1.059	1.784	1.784	344.0	343.2	204.5	203.3
September	1.583	1.616	0.962	0.975	1.796	1.808	348.0	346.1	206.7	204.9
October	1.685	1.772	1.003	1.120	1.741	1.688	348.3	346.3	206.0	204.8
November	1.723	1.566	1.058	0.961	1.683	1.661	349.0	348.1	205.3	206.2
December	1.734	1.840	1.065	1.113	1.675	1.844	350.9	349.4*	205.3	207.1*
January 1986	1.708	1.816*	1.025	1.121*	1.638	1.735*	352.2	353.5	205.5	209.2
February	1.695	1.878	1.027	1.153	1.563	1.742	354.9	355.8	206.6	210.2
March	1.691	1.867	1.053	1.124	1.558	1.769	357.6	359.7	207.8	212.1
April	1.708	1.825	1.046	1.105	1.569	1.726	359.2	360.6	207.9	212.1
May	1.713	1.805	1.057	1.121	1.583	1.683	360.5	362.1	207.9	212.5
June	1.649	1.762	1.065	1.093	1.542	1.641	362.1	362.1	208.1	211.9
July	1.628	1.719	1.053	1.076	1.497	1.568	362.9	361.8	208.0	211.2
August	1.615	1.717	1.058	1.085	1.483	1.579	363.4	360.7	207.7	210.2
September	1.603	1.705	1.046	1.091	1.480	1.543	364.0	360.3	207.4	209.5
October	1.583	1.708	1.050	1.106	1.472	1.552	362.2	360.4	205.7	209.1
November	1.587	1.694	1.051	1.102	1.483	1.508	360.4	360.5	203.8	208.5
December	1.618	1.674	1.063	1.091	1.491	1.509	360.9	360.5	203.3	207.9

	Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1985	131.0	130.8	64.7	64.7	144.5	148.7
August	132.3	132.5	64.4	63.9	147.2	146.9
September	133.5	133.6	64.8	63.6	149.7	148.9
October	135.0	132.1	65.0	63.6	148.3	150.6
November	136.6	133.4	64.8	64.5	147.6	150.3
December	138.1	134.3*	64.9	65.1*	147.9	150.0*
January 1986	139.0	134.6	63.9	65.3	149.3	153.6
February	140.1	135.3	64.0	65.8	150.8	154.7
March	141.2	135.9	64.2	66.1	152.2	157.7
April	142.2	136.3	65.0	66.4	152.0	157.9
May	143.1	136.8	66.1	66.8	151.3	158.5
June	144.0	137.2	67.3	67.1	150.8	157.8
July	144.7	137.5	67.7	67.3	150.5	157.0
August	145.3	138.0	68.1	67.6	150.0	155.1
September	145.8	138.5	68.6	68.0	149.6	153.8
October	146.0	138.9	67.9	68.2	148.3	153.3
November	146.2	138.6	66.8	68.5	147.4	153.4
December	146.2	138.5	67.2	68.8	147.5	153.2

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections

BUSINESS ACTIVITY

	Manufacturers' Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1985	285.0	285.0	104.37	104.37	26.69	26.69	27.04	27.04
August	284.6	284.7	107.33	107.66	27.55	27.55	27.79	27.79
September	284.9	284.0	106.11	106.64	28.85	29.24	26.54	26.72
October	285.2	282.4	105.58	104.50	28.26	27.09	27.25	27.72
November	285.9	281.8	105.03	103.78	28.11	25.79	27.39	27.77
December	286.5	282.4*	105.46	108.16	28.42	31.36	27.54	29.53
January 1986	287.7	283.5	107.19	106.25*	28.93	27.03*	27.81	29.03*
February	289.0	284.9	107.63	107.93	29.06	28.49	27.93	28.76
March	290.1	286.1	104.85	108.46	27.62	28.65	27.76	28.91
April	291.6	286.9	104.99	109.16	27.95	29.07	28.04	29.07
May	292.9	288.1	106.27	109.53	28.36	29.31	28.36	29.31
June	294.3	288.9	107.73	109.02	28.53	29.15	28.70	29.43
July	295.8	290.1	108.82	108.27	28.75	29.28	28.86	29.54
August	297.5	291.2	108.51	108.53	28.92	29.36	28.55	29.61
September	298.9	292.1	107.65	108.89	28.68	29.51	28.67	29.82
October	300.2	293.3	106.93	109.16	28.62	29.72	28.95	29.93
November	301.7	294.5	105.88	108.92	28.51	29.56	29.10	30.05
December	303.0	295.6	106.27	108.53	28.68	29.42	29.19	29.94

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1985	580.1	580.1	6.83	6.83	124.1	124.1	80.2	80.2
August	577.9	578.2	7.16	7.16	124.8	125.2	80.5	80.7
September	574.2	578.9	7.07	7.13	124.7	125.1	80.2	80.5
October	576.3	582.2	7.15	7.67	125.1	124.4	80.3	79.8
November	577.8	583.4	7.21	7.86	125.7	125.1	80.5	80.1
December	579.1	584.6*	7.25	7.87	126.2	126.0	80.6	80.5
January 1986	581.6	584.9	7.36	7.91*	126.7	126.5*	80.8	80.7*
February	584.3	586.6	7.47	7.96	127.1	126.9	80.9	80.8
March	587.1	588.9	7.60	8.03	127.8	127.2	81.1	80.8
April	590.0	591.4	7.71	8.21	128.0	127.3	81.0	80.7
May	592.8	594.2	7.75	8.24	127.8	127.5	80.7	80.6
June	595.7	596.4	7.77	8.35	127.6	127.7	80.4	80.6
July	598.4	598.8	7.89	8.39	127.4	127.9	80.1	80.5
August	601.3	600.5	8.01	8.43	127.2	128.4	79.8	80.7
September	604.4	602.3	8.10	8.41	127.2	128.3	79.6	80.4
October	607.6	605.2	8.18	8.45	127.1	128.4	79.3	80.2
November	610.5	608.2	8.27	8.49	127.1	128.5	79.1	80.1
December	613.4	611.8	8.36	8.57	127.0	128.8	78.8	80.1

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are expectations

PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Fore	C.E.	Fore	C.E.	Fore	C.E.	Fore	C.E.
July 1985	322.4	322.4	294.4	294.4	324.3	324.4	231.80	112.1
August	323.3	323.0	293.5	293.5	323.6	323.7	232.45	112.0
September	324.2	323.6	291.7	291.7	322.5	322.5	233.07	112.2
October	325.3	324.6	293.6	294.4	324.3	324.4	234.18	112.7
November	326.5	326.2	294.8	296.7	324.5	325.0	234.76	113.0
December	327.7	327.8	295.6	297.9	324.7	325.2	235.46	113.2
January 1986	328.6	328.1*	296.1	297.3*	325.0	323.9*	236.35	113.3
February	329.5	328.8	297.0	296.9	324.5	322.5	237.30	113.6
March	330.4	329.6	297.8	296.6	324.6	321.2	238.04	114.0
April	331.9	330.4	298.5	296.9	325.0	321.5	238.72	114.3
May	333.3	331.1	299.3	297.1	325.9	321.9	239.64	114.6
June	334.8	332.3	300.1	297.8	326.8	322.7	240.56	114.9
July	335.9	333.4	300.7	298.4	327.0	323.3	241.50	115.2
August	337.1	334.3	301.5	298.9	327.9	323.9	242.42	115.5
September	338.3	335.5	302.0	299.4	326.2	321.8	243.34	115.8
October	339.5	336.7	303.1	299.9	328.6	324.3	244.17	116.2
November	340.7	337.7	303.9	300.5	328.8	325.0	245.06	116.6
December	341.9	338.6	304.4	301.2	329.1	325.9	245.95	117.0

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore	C.E.	Fore	C.E.	Fore	C.E.	Fore	C.E.	Fore	C.E.
July 1985	227.3	112.0	177.8	104.5	221.7	107.6	250.0	117.0	168.7	169.1
August	227.5	111.8	178.8	104.8	221.7	107.5	251.0	117.4	168.2	168.8
September	227.6	112.1	179.1	104.6	222.0	107.8	251.9	117.9	168.3	168.9
October	229.0	112.6	177.8	103.9	222.9	108.3	252.9	118.4	169.1	169.0
November	229.9	113.1	178.0	104.2	223.9	109.1	254.0	118.8	170.0	169.8
December	230.8	113.4*	178.2	104.1*	224.8	109.6*	254.8	119.2*	170.9	168.7*
January 1986	231.4	113.5	178.4	104.0	225.2	109.5	255.9	119.6	171.4	169.0
February	232.1	113.8	178.6	104.2	225.6	109.3	257.0	120.1	171.8	169.3
March	232.9	114.1	178.9	104.3	225.8	109.4	258.1	120.6	172.1	169.6
April	233.5	114.4	179.1	104.5	226.3	109.6	259.1	121.0	172.8	170.0
May	234.2	114.7	179.3	104.6	226.8	109.9	260.2	121.4	173.4	170.4
June	235.0	115.1	179.5	104.8	227.4	110.1	261.3	121.9	174.0	170.9
July	236.0	115.4	179.8	104.9	228.0	110.4	262.7	122.3	174.5	171.3
August	236.9	115.7	180.1	105.0	228.6	110.7	264.0	122.8	175.0	171.6
September	237.8	116.1	180.4	105.0	229.2	111.1	265.3	123.3	175.5	172.0
October	238.7	116.5	180.8	105.4	229.8	111.3	266.4	123.7	176.1	172.4
November	239.5	116.9	181.2	105.7	230.4	111.7	267.5	124.2	176.8	172.9
December	240.3	117.4	181.5	106.1	231.0	112.1	268.6	124.7	177.5	173.4

Fore = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections

MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)		IVA (annual rate)	
	Fore	C.E.	Fore	C.E.	Fore	C.E.	Fore	C.E.	Fore	C.E.
July 1985	-10.51	-10.51	168.7	168.7	3885	3997	1676	3566	6.7	6.7
August	-9.90	-9.90	170.1	170.0	3921	4021	1687	3590	6.8	6.8
September	-11.50	-15.50	171.0	170.6	3942	4033	1691	3594	4.8	1.8
October	-10.68	-11.47	171.1	171.3	3967	4037	1694	3582	2.2	-6.2
November	-10.92	-13.68	171.3	171.5	3992	4068	1700	3600	-3.5	-9.7
December	-11.16	-14.27*	171.9	173.6*	4016	4120	1706	3639	-6.5	-14.4
January 1986	-11.01	-12.83	171.6	173.0	4043	4130	1711	3644	-3.6	-5.7
February	-11.96	-12.72	171.9	172.6	4067	4146	1714	3649	-0.9	1.3
March	-11.44	-12.89	172.2	173.0	4101	4159	1723	3648	0.5	4.9
April	-10.27	-12.93	171.8	173.4	4122	4181	1727	3659	1.2	6.8
May	-11.46	-12.72	171.5	173.3	4144	4206	1729	3670	2.1	6.3
June	-12.21	-11.84	172.2	173.8	4157	4233	1728	3683	1.8	5.2
July	-9.73	-11.63	171.6	173.5	4176	4255	1729	3693	0.5	4.7
August	-11.48	-10.97	170.9	173.2	4197	4279	1731	3704	-3.6	3.9
September	-11.32	-10.73	170.8	172.8	4218	4305	1733	3716	-6.5	1.6
October	-11.20	-10.58	170.3	172.9	4239	4327	1736	3723	-6.5	-2.3
November	-10.96	-10.43	170.9	172.5	4262	4355	1739	3735	-7.3	-2.9
December	-10.04	-10.59	171.3	172.8	4286	4383	1743	3746	-7.8	-4.6

Fore = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore	C.E.	Fore	C.E.	Fore	C.E.	Fore	C.E.	Fore	C.E.
July 1985	228.0	227.9	595.8	595.8	2490.5	2490.6	7.88	7.88	7.16	7.16
August	229.3	229.4	605.9	605.9	2513.7	2514.0	7.90	7.90	7.32	7.32
September	231.3	231.3	611.7	611.9	2528.4	2528.8	7.92	7.92	7.42	7.27
October	231.7	231.3	610.5	611.1	2540.5	2532.8	7.95	7.99	7.40	7.33
November	232.8	232.7	612.6	617.9	2557.1	2546.8	8.15	8.05	7.58	7.30
December	234.0	235.0	615.3	624.5	2573.6	2563.1	8.29	8.27	7.64	7.09
January 1986	235.4	236.6*	619.1	627.7*	2590.4	2584.3*	8.25	7.99*	7.66	7.13*
February	236.8	237.8	622.3	631.4	2606.8	2602.4	8.36	7.76	7.79	7.02
March	238.1	238.6	625.3	632.3	2623.2	2618.0	8.50	7.52	7.92	6.91
April	239.3	239.5	628.2	633.5	2640.4	2631.1	8.59	7.53	7.98	6.87
May	240.5	240.8	630.6	635.7	2655.2	2646.9	8.55	7.59	7.95	6.95
June	241.7	242.3	633.0	639.7	2667.3	2668.1	8.42	7.43	7.86	6.82
July	243.0	243.2	635.0	640.8	2682.3	2684.1	8.26	7.40	7.74	6.77
August	244.3	244.2	637.9	642.2	2700.3	2697.5	8.12	7.53	7.63	6.88
September	245.6	245.5	640.8	644.4	2719.6	2713.7	8.01	7.51	7.46	6.92
October	247.0	246.9	644.4	649.3	2738.5	2732.7	7.86	7.35	7.45	6.76
November	248.3	248.1	648.3	652.5	2755.0	2751.8	7.71	7.39	7.43	6.83
December	249.6	249.4	650.7	655.9	2772.1	2771.0	7.59	7.30	7.41	6.73

	Aaa (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Paper		90 Day CD's		Prime Rate	
	Fore	C.E.	Fore	C.E.	Fore	C.E.	Fore	C.E.	Fore	C.E.
July 1985	10.97	10.97	8.81	8.81	7.56	7.56	7.74	7.74	9.50	9.50
August	11.05	11.05	9.13	9.08	7.72	7.72	7.81	7.81	9.50	9.50
September	11.07	11.07	9.32	9.32	7.83	7.83	7.93	7.93	9.50	9.50
October	11.08	11.02	9.25	9.08	7.82	7.80	7.90	7.88	9.50	9.50
November	11.20	10.55	9.30	8.54	8.16	7.77	8.26	7.81	9.50	9.50
December	11.38	10.16	9.36	8.43	8.30	7.75	8.42	7.80	9.50	9.50
January 1986	11.40	10.06*	9.39	8.11*	8.14	7.73*	8.27	7.86*	9.88	9.50*
February	11.46	9.86	9.46	7.89	8.35	7.65	8.49	7.77	10.00	9.50
March	11.51	9.64	9.52	7.71	8.46	7.55	8.63	7.70	10.00	9.37
April	11.63	9.73	9.64	7.83	8.50	7.57	8.67	7.66	10.11	9.00
May	11.65	9.88	9.66	8.00	8.46	7.63	8.65	7.72	10.50	9.00
June	11.55	9.63	9.63	7.76	8.37	7.46	8.49	7.55	10.50	9.00
July	11.48	9.51	9.53	7.66	8.15	7.38	8.36	7.46	10.39	9.00
August	11.36	9.84	9.37	7.96	8.07	7.59	8.29	7.73	10.00	9.00
September	11.21	9.75	9.19	7.83	7.96	7.53	8.17	7.67	10.00	9.00
October	11.07	9.56	8.99	7.65	7.85	9.32	8.02	7.46	10.00	9.00
November	10.96	9.68	8.82	7.79	7.63	7.40	7.86	7.54	9.51	9.00
December	10.85	9.56	8.68	7.65	7.56	7.28	7.69	7.37	9.50	9.00

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections